TESTIMONY
United States House of Representatives
Committee on Small Business

May 13, 2009

Mr. James M. “Jim” Jones, Vice-President
Dixie Industrial Finishing Company
Tucker, Georgia

On behalf of:

The National Association for Surface Finishing

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Good morning, Chairwoman Velazquez, Ranking Member Graves and members of the committee. I am Jim Jones, Vice-President of Dixie Industrial Finishing Company. We are located in Atlanta, Georgia, and have 54 employees. I am testifying today on behalf of the National Association for Surface Finishing (NASF), the leading trade association for the metal finishing industry with over 2500 corporate and professional members in the U.S. I currently serve on the Board of Directors of the NASF.

We are also a member of the Precision Metal Forming Association (PMA), the National Association of Manufacturers (NAM), the Southeastern Fastener Association (SFA) and the Georgia Industry Association (GIA), of which I am a past president. I have been employed in the surface finishing industry since 1957 and I have been with Dixie Industrial Finishing Company since 1960, except for a break for military service with the United States Air Force.

Significance of Surface Finishing to Automotive and U.S. Manufacturing

For 49 years, Dixie Industrial Finishing has supplied surface finishing services for a range of industries that provide jobs and quality of life for Americans as well as products for consumers worldwide. My company and nearly 2000 operations like it are critical links in the automotive and other major manufacturing supply chains. Over 80 percent of U.S. surface finishing "job shops" employ fewer than 75 people, and the

majority of the industry has less than $10 million in annual sales on average. We are truly the small auto industry suppliers.

Like other key industries, surface finishing plays a significant value-added role in the auto parts and components supply chain. We use electrochemical technology to apply metal and other coatings onto literally thousands of different types of automotive parts. Our industry makes the auto components that we finish ***look better, work better and last longer.***

An estimated 20 percent of parts on an automobile require electroplating of metals or related coatings. Functional coatings provide parts with new properties like friction and wear resistance, corrosion protection, conductivity or other characteristics. Certain coatings are so critical that a car – or, for that matter, a jet or a spacecraft – can't work without them. In fact, one finishing company located in Brooklyn in Chairwoman Velazquez's district provides surface finishing services for some of the most sophisticated components and equipment used by NASA and the Department of Defense.

By volume, we estimate that automotive products account for nearly 50 percent of the total number of parts that are surface engineered by our industry. The contribution of surface finishing to the broader manufacturing value chain has been estimated by some to approach $100 billion, and the value added from the metal plating or related coatings is often higher than the value of the parts themselves.

Impact of the Automotive Crisis on the Surface Finishing Industry

The impact of the U.S. automotive crisis and its ripple effect through the supplier base has been extremely painful for the finishing industry. Those shops that service automotive directly, or through their Tier 1 or Tier 2 suppliers, are currently facing the worst downturn we have seen in our lifetimes. As small manufacturers, our economic livelihood depends on the health of our automotive and industrial customers.

It comes down to basic economics – when our customers suffer, we suffer. And the steady jobs and benefits we provide for over 100,000 American workers in the finishing industry are disappearing at an alarming rate. It's estimated that the finishing industry has shed approximately 30,000 jobs nationwide just in recent months. Automotive is not the sole driver, but a significant factor.

Dixie Industrial Finishing serves a relatively diverse customer base – our current revenues are just under 20 percent automotive. Our sales have dropped off, however, from $8.5 million annually last year to a projected $5.0 million for 2009. We've also reduced our workforce by about 35% since the beginning of the year, by about 30 employees.

But many job shops in the auto supply chain have seen sales decline by as much as 70 percent. These are typically well-managed, quality-driven and customer-focused companies. Yet they face a near or certain disaster that has absolutely nothing to do with their ability to drive a successful business. They've responded to massive production slowdowns by their larger automotive customers by cutting shifts and scaling back workweeks. Some have slashed every cost they can actually manage and are holding on until the crisis is sorted out. Others have filed for bankruptcy. In the meantime, Chrysler's restructuring plans and GM's pending plant shutdowns create major uncertainties for the finishing industry in the future.

Some Immediate Challenges and Recommendations

There are several immediate challenges faced by small suppliers that we look forward to addressing in our work with the Committee and others in Congress.

(1) Access to Credit

First, banks are not lending money. Very few, if any, small finishing job shops are able to get financing for routine business activities, particularly in automotive. And

the situation is not improving. For the job shop that bought materials and set up their operations to finish parts for a Tier 1 or Tier 2 supplier, the response from commercial lenders was "sorry, too much GM, too much automotive exposure."

Some job shops that have financing arrangements based on their accounts receivables face a major squeeze. In one case, a job shop with an arrangement to borrow up to 80 percent of its accounts receivables had record revenues, but then lost 50 percent of its sales within 30 days. The drop-off quickly squeezed them out of the financing they were used to using for developing new projects.

(2) Federal Assistance to the Auto Industry

Another concern we have is that federal aid aimed at the auto industry is essentially not accessible or helpful to smaller finishing suppliers.

The recent U.S. Treasury program guarantees or insures receivables for suppliers of GM and Chrysler, but it limits aid to direct suppliers of GM and Chrysler and goes no further. One finishing company I've spoken with actually supplies directly to GM, so his direct GM receivables are insured. However, the same shop also supplies Tier 1 and Tier 2 suppliers to GM, yet these receivables are not insured.

As for the Department of Energy's loan program for Advanced Technology Vehicles, we were enthusiastic when we first heard about it. But as our association and outside counsel reviewed the eligibility criteria, it was clear that while small suppliers were welcome, participation was tedious in terms of the information demands made on smaller finishing companies. We were not aware of any company in the finishing industry that took advantage of this assistance.

The Small Business Administration has help available also, but we have not seen reports of our job shops successfully using the 7A guaranteed loan programs for

automotive related projects. The program relies primarily on commercial lenders which aren't financing projects for automotive-related projects.

(3) Selected Targeted Policy Changes

In light of the scope of federal resources that has already been committed to assisting the automotive supply chain, we'd like to provide examples of some additional, targeted suggestions that would help incentivize small suppliers and reduce the increasingly higher costs of operating in the U.S.

Energy Efficiency – Provide more significant tax incentives for small manufacturers like surface finishers to pursue key energy efficiency investments and upgrades at the plant that would cut energy costs and minimize air emissions.

Environmental Protection – Provide tax incentives for expanding our investments in environmental technologies for manufacturing operations, such as upgrades or replacements for wastewater treatment and air pollution control systems.

The Challenge Extends Beyond the Automotive Crisis

Beyond some of these near term and targeted suggestions, we believe it's important to point out that job losses in the finishing industry are occurring in nearly every sector. The automotive crisis has accelerated and deepened a trend that has been underway for some time. This larger trend is due in part to some of our own U.S. policies and those of other nations that have diminished U.S. manufacturing competitiveness and made it easier to produce things overseas.

Our industry surveys show that jobs in the finishing industry have declined by about 50 percent since the mid 1990s – from approximately 200,000 to about 100,000 earlier this year. Several factors have been responsible for this decline, among others:

- repeated price concession demands down the supply chain from GM, Chrysler and Ford, as well as some of our industrial customers in other sectors;
- the consistently high structural costs of doing business in the U.S., such as health insurance coverage (my own company's health care costs have risen by 100 percent over the past three years);
- global sourcing and off-shoring to Asia and other locales by our large industrial customers; and
- the trade and currency practices of some of our key trading partners.

One measure of how dramatically the global economy has changed the small supplier base for the automotive industry and U.S. manufacturing as a whole in recent years is how stable my company's customer base has been over time. It's a fact that we have been forced to replace 100 percent of our customer base in the past ten years.

This means that no matter how excellent our quality is, no matter how lean we've become through automation and upgraded operations, no matter how well we treat our customers – our customer base of major industrial players is constantly disappearing before our eyes by shutting down operations, looking for cheaper vendors, and moving operations out of the country.

In light of our challenges, we would recommend to the Committee our broader agenda for helping finishers and other small manufacturers invest, innovate and help create jobs for American workers. It's essential to create future opportunities built on:

- **U.S. Competitiveness** – we need to review the U.S. jobs impact of our current regulatory framework and our relationship with our trading partners, whose lower overhead costs and trade policies continue to undercut our competitiveness.

- **Manufacturing Growth** – as job creators in our communities, we need Congress to promote and incentivize a viable small manufacturing base, starting with the automotive supply chain.

- **Manageable Health Care Costs** – we support changes to our health care system that make health insurance affordable, as small and midsize manufacturers can no longer support health coverage for our employees in the way we once did.

- **New Technologies and Affordable Energy** – new markets and products driven by a new energy economy may require a range of surface finishing technologies. We support greater commitments to small business R&D initiatives and options for reducing the cost of energy for small suppliers.

- **Democracy in the Workplace** – we support our long-held democratic tradition of private ballots in union organizing elections, and oppose the recently introduced Employee Free Choice Act.

We look forward to discussing these issues and recommendations further with the Committee and others in Congress.

Thank you.